

AR31

BLACK HAWK MINING LTD.

(No Personal Liability)

Annual Report

FOR THE PERIOD ENDED DECEMBER 31, 1966



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BLACK HAWK MINING LTD.

(NO PERSONAL LIABILITY)



OFFICERS

John Kostuik, B.Sc. President
The Honourable Harry A. Willis, Q.C. Vice-President
A. F. Risso Secretary-Treasurer
A. F. Casselman Assistant Secretary-Treasurer

DIRECTORS

John Kostuik, B.Sc. Toronto
Marsh A. Cooper, M.A. Toronto
Joseph A. Patrick New York
Joseph J. Rankin Toronto
A. F. Risso Toronto
Anthony Roman Toronto
The Honourable Harry A. Willis, Q.C. Toronto

SOLICITORS

Manley, Grant & Armstrong
Toronto, Ontario

TRANSFER AGENTS

The Guaranty Trust Company of Canada
Montreal, Quebec
Toronto, Ontario

AUDITORS

Soupcoff, Starkman, Kraft & Co.
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

HEAD OFFICE

Suite 804
Place Victoria
Montreal, Quebec

EXECUTIVE OFFICE

20th Floor
4 King Street West
Toronto, Ontario

MINE OFFICE

Blue Hill, Maine, U.S.A.

President's Report

TO THE SHAREHOLDERS:

An annual meeting of the shareholders of Black Hawk Mining Ltd. (No Personal Liability) will be held on Thursday, April 27, 1967, at 11:30 a.m. (Montreal time), in the Prince of Wales Room of the Windsor Hotel, Montreal, Quebec.

Notice of the meeting is enclosed for your attention, together with an instrument of proxy, the consolidated balance sheet of the Company and its wholly-owned subsidiary as at December 31, 1966, and the consolidated statements of exploration and development and corporate expenses for the period ended that date, as reported on by the Company's auditors.

Funds for the development program carried on throughout the year under review were provided by the sale of debentures, with a face value of \$610,000, to Denison Mines Limited, who have since purchased an additional \$25,000 to bring the total of the secured debt to \$2,735,000 to date.

During 1966 Black Hawk Mining Ltd. continued underground exploration and development of the copper and zinc orebodies on its Blue Hill, Maine properties working from established levels on the 380-ft., 480-ft. and 580-ft. horizons.

Although the amount of sulphide mineralization in aggregate is impressive the thinness of the individual mineralized sheets, together with local irregularities in both strike and dip have required extensive drifting, raising and underground diamond drilling to delineate the ore zones for detailed evaluation. The exploration program was continued up to the middle of March 1966. It was then decided to do additional work with a limited staff and labor force to obtain the information needed for completing economic studies and geological evaluations of the deposits.

UNDERGROUND EXPLORATION AND DEVELOPMENT WORK COMPLETED IS AS FOLLOWS:

	1966 Jan. 1 — Dec. 31	Total to Dec. 31, 1966
Shaft	—	698 feet
Stations	—	280, 380, 480, 580, 680-ft. horizons
Drifting (380, 480, 580-ft. levels)	1,658 feet	5,636 feet
Cross-cuts "	—	2,758 feet
Raises	1,172 feet	1,958 feet
Diamond Drilling	18,029 feet	31,750 feet

ZINC ORE RESERVES ABOVE 780 LEVEL

	At 10% Cut-off Grade			At 5% Cut-off Grade		
	Tons	% Zn	% Cu	Tons	% Zn	% Cu
Main Zinc Zone (Dilution at 30%)	737,800	14.69	0.42	922,800	12.90	0.43

COPPER ORE RESERVES

Zone	Depth to level	Dilution	Tons	% Cu	% Zn	Oz. Ag/Ton
<i>Lower Second Pond</i>	900	30%	424,000	1.81	—	—
<i>Zinc Horizon</i>						
Mixed Copper-Zinc	780	30%	354,400	1.24	1.77	—
Copper	780	30%	231,000	1.59	—	—
<i>Mammoth</i>	380	20%	433,000	1.75	—	0.51
<i>Douglas</i>	880	20%	1,025,000	1.63	—	0.40

STOCKPILES OF BROKEN ORE ON DECEMBER 31, 1966 WERE:

Zinc Ore:	11,950 tons at 10.06% Zn, 0.36% Cu
Copper Ore:	4,425 tons at 1.73% Cu,
Lead Ore:	674 tons at 3.47% Pb, 1.05% Zn, 0.54% Cu

Underground exploration and development work has not been extended into the Mammoth zone. No development work has been done on the Douglas copper zone and the tonnages shown in both cases are based on previous surface diamond drilling.

The indicated reserve of 350,000 tons of lead-silver ore mentioned in the last Annual Report has been found with underground development to consist of discontinuous lenses with limited tonnage potential and, as a result, have not been included in the ore reserves.

Metallurgical studies on representative ore samples from underground development headings have confirmed earlier results from test work based on diamond-drill core. For the zinc ore recovery of 93% in a concentrate assaying 55% Zn can be expected and recovery of 92% in a concentrate assaying 25% was achieved from copper ore. In addition, studies were made from flow sheet development and for mill design.

Underground exploration has disclosed that locally the strike and dip of the sheets is quite irregular so that dilution, unrelated to roof and wall strengths, has been an important factor in mine planning and in estimating mining costs.

The critical lack of experienced miners in the Blue Hill area and the absence of suitable housing for the work force have not been resolved after exhaustive efforts including the proposal of a training program and further economic studies have shown that mining and milling of the Black Hawk orebodies will not be profitable at the present prices of copper and zinc in the United States.

A decision was made to defer operations at the Blue Hill project and place the mine on a stand-by basis until economic and other conditions are more favourable for the production of copper and zinc ores.

Funds have been arranged to put the property on a stand-by basis.

Submitted on behalf of the Board of Directors,

JOHN KOSTUIK

President

Toronto, Ontario,

April 10, 1967.

BLACK HAWK

(No Personal Liability)

AND ITS WHOLLY OWNED SUBSIDIARIES

BLACK HAWK MINING LTD.

Consolidated Balance Sheet

ASSETS

Current Assets:

Cash	\$	19,229	
Accounts receivable		1,995	
Prepaid expenses		6,955	
Materials and supplies on hand, at average cost		26,936	\$ 55,115

Statutory Deposit:

Province of Quebec \$1,000 Bond, at cost			862
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Fixed Assets, at cost:

Mining claims and mining rights	\$	60,370	
Lands, roads and leased properties		127,380	
Buildings, machinery and equipment		721,444	909,194

Deferred Expenses:

Exploration and development expenses, Schedule "A"	\$	1,626,148	
Corporate expenses, Schedule "B"		471,334	
Organization expenses		5,441	
Bond discount and financing expenses		203,659	2,306,582

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board,

JOHN KOSTUIK, Director.

A. F. RISSO, Director.

\$ 3,271,753

To the Shareholders of
BLACK HAWK MINING LTD.
(No Personal Liability)

AUDITORS

We have examined the above consolidated balance sheet of BLACK HAWK MINING LTD. and consolidated deferred exploration and development expenses and deferred corporate expenses in the evidence as we considered necessary in the circumstances. We have relied on the report of the auditors.

As outlined in Note 7, the development of the orebodies has been deferred and the cost of production of copper and zinc ores. The recoverability of costs is dependent on the successful production of copper and zinc ores.

Except that depreciation charges on buildings and equipment have been omitted (Note 8), the financial statements have been prepared in conformity with generally accepted accounting principles applicable in Canada.

In view of the present status of the development programme as outlined above and the consolidated financial statements taken as a whole.

Toronto, Ontario.

March 23, 1967.

MINING LTD.

(Liability)

ED SUBSIDIARY

CORPORATION

et December 31, 1966

LIABILITIES

Current Liabilities:

Accounts payable and accrued charges \$ 22,929

Long-Term Debt:

6½ % Debentures Series A, due June 30, 1974 2,710,000

\$ 2,732,929

Capital Stock:

Authorized:

5,000,000 shares with a par value of \$1.00 each \$5,000,000

Issued and fully paid:

900,000 shares for mining claims and options

thereon \$ 900,000

Less: Discount thereon 840,000 \$ 60,000

400,000 shares for acquisition of wholly-owned

subsidiary \$ 400,000

Less: Discount thereon 373,031 26,969

2,719,009 shares for cash \$2,719,009

Less: Discount thereon 2,267,154 451,855

4,019,009

538,824

\$ 3,271,753

REPORT

G LTD. (No Personal Liability) as at December 31, 1966 and the related schedules of
ur examination included a general review of the accounting records and other supporting
ors who have examined the financial statements of the subsidiary company.

ect placed on stand-by until economic and other conditions are more favourable for the
of the exploration and development programme.

and subject to the recoverability of costs referred to above, the consolidated financial state-
a continuing operation on a basis consistent with that of the preceding year.

e of the uncertainty of the recoverability of costs we are unable to express an opinion on the

SOUPCOFF, STARKMAN, KRAFT & CO.

Chartered Accountants.

BLACK HAWK MINING LTD.

(No Personal Liability)

NOTES TO CONSOLIDATED BALANCE SHEET

December 31, 1966

1. (a) Under the Provisions of the trust indenture dated July 15, 1965 securing the Debentures Series A:
 - (i) \$5,000,000 6½ % Debentures Series A have been authorized maturing June 30, 1974.
 - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31.
 - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debentures holders.
- (b) In accordance with an agreement dated August 7, 1964:
 - (i) Denison Mines Limited (Denison) has purchased \$2,710,000 6½ % Debentures Series A (of which \$610,000 was purchased during the year ended December 31, 1966 for a cash consideration of \$594,750), and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,642,250.
 - (ii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefor through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.
2. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options had been granted on 92,500 shares thereof and during a prior year 30,000 shares were exercised and 10,000 shares were forfeited. There remain 17,500 shares available for the granting of options.
3. The subsidiary being a United States company, its current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange at December 31, 1966 and fixed assets are at the rate current at date of acquisition, and the exploration and development expenses and corporate expenses are at the rate current at the date of expenditures.

The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1966 include the exploration and development expenses and corporate expenses of the subsidiary, prior to acquisition.
4. The subsidiary has elected not to report depreciation on buildings and equipment until such time as the mine becomes productive. Depreciation to date in the amount of \$208,000 (U.S. funds \$192,000) has been taken on the U.S. Federal Income Tax Returns.
5. Mining Claims:

Six mining claims held under development licenses acquired and paid for in cash	\$	20	
Eight mining claims held under development licenses acquired by the issue of			
600,000 shares at a discount of \$0.95 each		30,000	\$ 30,020
Seven mining claims and mining rights acquired and paid for in cash	\$	350	
and by the issue of 300,000 shares at a discount of \$0.90 each		30,000	30,350
			<u>\$ 60,370</u>
6. Leased properties are held under annually renewable leases requiring rental payments and a 5% participation in the net value, as defined in the various leasing agreements, of the minerals and metals removed from the leased premises.
7. Studies have shown that, at the prevailing prices of copper and zinc in the U.S.A., the development of the ore-bodies in Blue Hill, Maine, by the wholly owned subsidiary is not economic at the present time. The development of these mining properties, in respect of which \$873,194 and \$2,229,205 have been expended in Fixed Assets and Deferred Expenses respectively as at December 31, 1966, has been deferred, and the project has been placed on stand-by until economic and other conditions are more favourable for the production of copper and zinc ores.

BLACK HAWK MINING LTD.

(No Personal Liability)

**STATEMENT OF CONSOLIDATED DEFERRED EXPLORATION AND DEVELOPMENT
EXPENSES****For the year ended December 31, 1966**

	From Inception to December 31, 1965	Year Ended December 31, 1966	From Inception to December 31, 1966
Quebec:			
Prospecting, developing and surveying	\$ 29,526	\$ 803	\$ 30,329
Diamond drilling, mapping and assaying	40,380	2	40,382
General field expenses	1,152	73	1,225
	<u>\$ 71,058</u>	<u>\$ 878</u>	<u>\$ 71,936</u>
Maine:			
Prospecting, developing and surveying	\$ 26,267	\$ 14,212	\$ 40,479
Diamond drilling, mapping and assaying	263,922	50,821	314,743
Shaft sinking and underground development	702,895	226,973	929,868
General field expenses	183,356	85,766	269,122
	<u>\$1,176,440</u>	<u>\$377,772</u>	<u>\$1,554,212</u>
	<u>\$1,247,498</u>	<u>\$378,650</u>	<u>\$1,626,148</u>

SCHEDULE "B"

STATEMENT OF CONSOLIDATED DEFERRED CORPORATE EXPENSES**For the year ended December 31, 1966**

	From Inception to December 31, 1965	Year Ended December 31, 1966	From Inception to December 31, 1966
Registrars' and transfer agents' fees and expenses	\$ 5,265	\$ 2,543	\$ 7,808
Legal and audit fees and expenses	47,055	19,706	66,761
Capital and place of business tax	370	69	439
Interest on secured notes	56,274	—	56,274
Interest on debentures	43,452	158,247	201,699
Administrative salaries, communications, stationery and office supplies, rent, taxes, insurance and general office expenses	80,891	23,490	104,381
Travelling expenses	20,453	1,357	21,810
Loss on disposal of fixed assets	1,572	—	1,572
General expenses	10,114	476	10,590
	<u>\$ 265,446</u>	<u>\$205,888</u>	<u>\$ 471,334</u>
Summary:			
Schedule "A"	\$1,247,498	\$378,650	\$1,626,148
Schedule "B"	265,446	205,888	471,334
	<u>\$1,512,944</u>	<u>\$584,538</u>	<u>\$2,097,482</u>

